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SUBJECT: NIGERIA 2007 BUDGET FRAMEWORK

1. Summary: The GON plans to propose a budget of USD 17.79 billion (Naira 2.26 trillion) for 2007, an increase of 18.95 % over 2006. The budget will be presented to the National Assembly by President Obasanjo on Wednesday, October 11, 2006. The budget makes preliminary forecasts for 2008 and 2009. The budget focuses on building and maintaining physical and social infrastructure. The stated top budget priorities are education; health; electricity; roads; water; agriculture; transport(which includes railways); security (including police and defense); and achieving the Millennium Development Goals. End summary.

Budget Parameters

2. Budget 2007 is based on the following assumptions and targets compared to 2006 budget:

- Crude oil benchmark price of USD 40 per barrel, up from U.S. dollar 35 per barrel
- Crude oil production of 2.5 million barrels per day (mbpd), no change;
- Joint Venture Cash Calls of U.S. dollar 4.5 billion, up from U.S. dollar 4.20 billion;
- GDP growth of 10%, up from 6.9%;
- Inflation rate at 10%, up from 9%;
- Exchange rate of Naira 127 to U.S. dollar 1, down from Naira 129;
- Value Added Tax (VAT) rate of 10%, no change from 2006 based on the expectation that the Tax Bill would be passed this calendar year.
- Weighted average duty rate of 17%, no change; and
- Weighted average interest rate of 9%, down from 13%.

Revenue and Expenditures

3. The Federation Account will distribute USD 33.8 billion (Naira 4.292 trillion) primarily to the federal (Naira 1.8 trillion), state (Naira 1.184) and local (Naira 847 billion) governments. The federal portion of GON revenue for 2007 is projected at USD 13.9 billion (Naira 1.765 trillion) against budgeted expenditures of USD 17.79 billion (Naira 2.260 trillion) leaving a budget deficit of USD 3.9 billion (Naira 496 billion). The deficit is 2.9% of GDP, which is projected to be USD 135.6 billion (Naira 17.338 trillion). Revenues are made up of oil at USD 10.74 billion (Naira 1.364 billion), Value Added Taxes of USD 559 million (Naira 71 billion), Companies Income Taxes of USD 1.09 billion (Naira 139 billion), Customs and Excise Duties of USD 819 billion (Naira 104 billion), and Federal Government independent revenues of USD 677 million (Naira 86 billion) accruable from investments in commercial enterprises.

Expenditures are statutory transfers at USD 802 million (Naira 102 billion), debt service of USD 2.57 billion (Naira 326 billion) and the federal government ministries, departments and agencies (MDA) at USD 14.32 million (Naira 1.832 billion).

Debt Service

14. At USD 2.57 billion (Naira 326 billion) debt service is up 12.4% over last year (Naira 290 billion). The debt service is made up of domestic debt of USD 2.08 billion (Naira 265 billion) and foreign debt U.S. dollar 480 million (Naira 61 billion).

Additional Spending in Key Sectors

15. Education has specifically targeted USD 38.2 million (Naira 4.86 billion) for training of science and technical teachers, federal government scholarships, construction of classrooms for nomadic education, and monitoring of education quality. Health has specifically targeted USD 70.3 million (Naira 8.93 billion) for the refurbishing of healthcare institutions and hospitals, a National AIDS/STI, Malaria and a national immunization program. This also includes training of health care workers and strengthening the National Health Insurance Scheme. The power sector has targeted USD 252.7 million (Naira 32.1 billion) for completing 32 transmission projects such as rural electrification, rural access roads and power generation.

Millennium Development Goals

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16. In line with the GON's commitment towards meeting the Millennium Development Goals (MDGs), the GON proposes additional spending of USD 866 million (Naira 110 billion) in some key ministries in addition to the normal budgetary expenditure. The additional spending would come from savings from debt service accruing from the Paris Club debt deal of 2005.

17. The additional expenditure relating to the MDGs are as follows:

- Education is allocated USD142 million (Naira 18 billion);
- Health is allocated USD 118 million (Naira 15 billion);
- Power is allocated USD 79 million (Naira 10 billion);
- Housing is allocated USD dollar 24 million (Naira 3 billion);
- Federal Capital Territory (FCT) is allocated USD 16 million (Naira 2 billion);
- Agriculture is allocated U.S. dollar 118 million (Naira 15 billion);
- Water Resources is allocated USD 79 million (Naira 10 billion);
- Conditional Grants to States and the FCT of USD 173 million (Naira 22 billion);
- Social Safety Nets is allocated USD 79 million (Naira 10 billion);
- National Action Committee on AIDS is allocated USD 8 million (Naira 1 billion); and
- Monitoring and Evaluation is allocated USD 16 million (Naira 2 billion).

18. Comment: By raising the reference price for oil, just for one year, this budget will pump more money into the economy and increase the challenges the Central Bank faces in controlling inflation, especially given the similar single year low target for interest rates. Only appreciation of the naira is foreseen to counter this. The other question it raises is the production target. Actual oil shipments have been falling, and Nigeria has announced via OPEC a 5% production cut. In the meantime new offshore production and natural gas production is coming on line, while on the other hand militants are threatening further attacks and have proven they can cut production. Meanwhile election year politics and the advent of a new government could render much of the proposed budget moot..

